

**ST. MARY PARISH
SEWERAGE DISTRICT NO. 8**

Patterson, Louisiana

Financial Report

Year Ended September 30, 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2/3/10

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
St. Mary Parish Sewerage District No. 8
Patterson, Louisiana

We have audited the accompanying financial statements of the business-type activities of St. Mary Parish Sewerage District No. 8 (hereinafter, "the District"), a component unit of the St. Mary Parish Government, as of and for the year ended September 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of St. Mary Parish Sewerage District No. 8 as of September 30, 2009, and the changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The District has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Morgan City, Louisiana
January 26, 2010

BASIC FINANCIAL STATEMENTS

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Balance Sheet
September 30, 2009

ASSETS

Current assets:	
Cash and interest-bearing deposits	\$ 464,158
Receivables	
Customer	10,324
Accrued interest	3,074
Prepaid expenses	<u>2,555</u>
Total current assets	480,111
Noncurrent assets:	
Capital assets, net of accumulated depreciation	1,738,345
Refundable deposits	<u>210</u>
Total noncurrent assets	<u>1,738,555</u>
Total assets	<u>\$ 2,218,666</u>

LIABILITIES

Current liabilities:	
Accounts payable	\$ 9,451
Accrued liabilities	6,809
Customers' deposits payable	<u>26,055</u>
Total current liabilities	<u>42,315</u>

NET ASSETS

Invested in capital assets	1,738,345
Unrestricted	<u>438,006</u>
Total net assets	<u>2,176,351</u>
Total liabilities and net assets	<u>\$ 2,218,666</u>

The accompanying notes are an integral part of this statement.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2009

OPERATING REVENUES	
Ad valorem taxes	\$ 194,704
Sewer user fees	140,990
Permits	125
Other customer charges	<u>3,316</u>
Total operating revenues	<u>339,135</u>
OPERATING EXPENSES	
Salaries and related benefits	131,263
Supplies and materials	37,482
Other services and charges	61,466
Plant operation	116,201
Depreciation	<u>84,171</u>
Total operating expenses	<u>430,583</u>
Operating loss	<u>(91,448)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	10,050
Loss on disposition of assets	(2,990)
Miscellaneous	<u>(1,615)</u>
Net nonoperating revenue	<u>5,445</u>
Net loss	(86,003)
NET ASSETS, beginning	<u>2,262,354</u>
NET ASSETS, ending	<u>\$ 2,176,351</u>

The accompanying notes are an integral part of this statement.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Statement of Cash Flows
Year Ended September 30, 2009

OPERATING ACTIVITIES	
Revenue collected	\$ 143,142
Receipts from operating taxes	194,704
Payments for goods and services	(248,187)
Payments to employees	(131,263)
Net cash used in operating activities	<u>(41,604)</u>
NONCAPITAL FINANCING ACTIVITIES	
Miscellaneous	(1,615)
Proceeds from deposits	990
Net cash used in noncapital financing activities	<u>(625)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(56,867)</u>
INVESTING ACTIVITIES	
Interest received	<u>16,037</u>
Net decrease in cash	(83,059)
Cash and cash equivalents, beginning	<u>547,217</u>
Cash and cash equivalents, end	<u>\$ 464,158</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (91,448)
Adjustment to reconcile operating loss to net cash provided by operating activities -	
Depreciation	84,171
Changes in assets and liabilities:	
Increase in receivables	(1,289)
Increase in prepaid expenses	(569)
Decrease in accounts payable	(38,829)
Increase in accrued liabilities	<u>6,360</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (41,604)</u>

The accompanying notes are an integral part of this statement.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements

INTRODUCTION

St. Mary Parish Sewerage District No. 8 ("District"), a component unit of the St. Mary Parish Government, was created by an ordinance dated August 8, 1984 of the St. Mary Parish Council (formerly police jury). The District is authorized to operate, maintain and improve, extend and/or dispose of all works and facilities for sewer, and sewerage treatment or disposal facilities and systems within the boundaries of the district. The District is governed by a Board of Supervisors appointed by the Council of St. Mary Parish Government.

(1) Summary of Significant Accounting Policies

The accompanying financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

A. Financial Reporting Entity

As the governing authority of the parish, for reporting purposes, the St. Mary Parish Government is the financial reporting entity for St. Mary Parish. The financial reporting entity consists of (a) the primary government (parish council), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the St. Mary Parish Government for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (Continued)

This criteria includes:

- 1) Appointing a voting majority of an organization's governing body, and
- 2) The ability of the Parish to impose its will on that organization and/or
- 3) The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Council.
- 4) Organizations for which the Council does not appoint a voting majority but are fiscally dependent on the Parish council.
- 5) Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Because the Parish Council appoints the District's governing body, the District was determined to be a component unit of the St. Mary Parish Government, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Parish Government, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

B. Basis of Presentation

The accompanying financial statements of the District have been prepared in conformity with governmental accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Fund Financial Statements

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The proprietary fund is maintained consistent with legal and managerial requirements.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (Continued)

Proprietary Funds -

Proprietary funds are used to account for ongoing operations and activities that are similar to those often found in the private sector. The measurement focus is based upon determination of net income, financial position, and cash flows. The two types of proprietary funds are enterprise and internal service funds. The District's fund is an enterprise fund. (proprietary fund type)

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, it is the District's policy to apply all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has not adopted any Financial Accounting Standards Board (FASB) pronouncements or Accounting Principles Board (APB) opinions issued after November 30, 1989.

Enterprise funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus/Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

Business-type activities are presented using the economic resources measurement focus as defined below.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (Continued)

The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Assets, Liabilities and Equity

Cash and interest-bearing deposits

For purposes of the Statement of Net Assets, cash and interest-bearing deposits include all demand accounts, savings accounts, and certificates of deposits. For the purpose of the cash flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less when purchased.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Unbilled utility service receivables resulting from utility services rendered between the date of meter reading and billing and the end of the month, are recorded at year-end.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2009, are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the statement of net assets. Capital assets are capitalized at historical cost or estimated cost if historical is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$1,000 for capitalizing assets.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets is recorded as an expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

System	25 years
Equipment	5 years
Furniture and Fixtures	5 years

Capitalized Interest

The District capitalizes net interest costs and interest earned as part of the cost of constructing various sewer projects when material.

Bad Debts

Uncollectible amounts due from customers' utility receivables and ad valorem taxes are recognized as bad debts by direct write-off through the establishment of an allowance account at the time information becomes available indicating the uncollectibility of the receivable. Although the direct write-off method is not in conformity with accounting principles generally accepted in the United States of America (GAAP), reported differences between the direct write-off and GAAP-based methods are considered immaterial.

Compensated Absences

All full time employees of the District are eligible to earn vacation and sick leave. Vacation varies with length of service and cannot be carried forward. Sick leave is accrued at a rate of one half day per month and is allowed to accumulate up to sixty (60) days. No sick leave is payable upon termination.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (Continued)

Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

E. Revenues and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenses

Expenses are classified by function for business-type activities. Expenses are further classified as operating and nonoperating.

Proprietary funds report expenses relating to use of economic resources.

F. Budgeting and Budgetary Accounting

Enterprise funds are not required under Louisiana Revised Statute 39:1301 et seq to adopt a budget and the District has elected to not formally adopt a budget. Accordingly, budgeted figures are not presented in this financial report.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (Continued)

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(2) Cash and Interest-Bearing Deposits

Under state law, the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The District may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. At September 30, 2009, the District has cash and interest-bearing deposits (book balances) totaling \$464,158 as follows:

Demand deposits	\$ 8,338
Time deposits	425,557
Money market accounts	<u>30,263</u>
Total	<u>\$ 464,158</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. Deposit balances (bank balances) at September 30, 2009, are as follows:

Bank balances	<u>\$ 476,630</u>
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At September 30, 2009, the deposits are secured as follows:

Federal deposit insurance	460,550
Pledged securities	<u>16,080</u>
Total	<u>\$ 476,630</u>

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (Continued)

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District's deposits may not be recovered or will not be able to recover collateral securities that are in the possession of an outside party. The District does not have a policy to monitor or attempt to reduce exposure to custodial credit risk. However, at September 30, 2009, the District's total bank balances were fully insured and collateralized with securities held in the name of the District by the pledging financial institution's agent and therefore not exposed to custodial credit risk.

(3) Ad Valorem Taxes

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied by the district in September or October and are actually billed to taxpayers in November or December. Billed taxes become delinquent on January 1 of the following year. The St. Mary Parish Sheriff bills and collects property taxes for the District using the assessed values determined by the tax assessor of St. Mary Parish.

For the year ended September 30, 2009, 6.00 mills were authorized and dedicated to sewerage system maintenance. Total taxes levied were \$194,704. There were no tax receivable at September 30, 2009.

(4) Capital Assets

Capital asset activity for the year ended September 30, 2009 was as follows:

	Balance 10/01/08	Additions	Deletions	Balance 09/30/09
Capital assets being depreciated:				
Sewerage system	2,909,596	56,867	12,073	2,954,390
Equipment	4,770	-	-	4,770
Furniture	105,219	-	3,252	101,967
Total capital assets	<u>3,019,585</u>	<u>56,867</u>	<u>15,325</u>	<u>3,061,127</u>
Less accumulated depreciation				
Sewerage system	1,186,814	82,176	9,105	1,259,885
Equipment	4,770	-	-	4,770
Furniture	59,362	1,995	3,230	58,127
Total accumulated depreciation	<u>1,250,946</u>	<u>84,171</u>	<u>12,335</u>	<u>1,322,782</u>
Capital assets, net	<u>\$ 1,768,639</u>	<u>\$ (27,304)</u>	<u>\$ 2,990</u>	<u>\$ 1,738,345</u>

Depreciation expense was charged to business-type activities in the amount of \$84,171.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (Continued)

(5) Employee Retirement

Substantially all employees of the District are members of the Parochial Employees' Retirement System of Louisiana. This system is a cost-sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. This retirement system provides retirement, disability, and death benefits to plan members and their beneficiaries. Pertinent information relative to this plan follows:

Plan Description - The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the District are members of Plan A.

All permanent employees working at least twenty-eight hours per week who are paid wholly or in part from the District's funds are eligible to participate in the System. Under Plan A, employees who retire at or after age sixty with at least ten years of creditable service, at or after age fifty-five with at least twenty-five years of creditable service, or at any age with at least thirty years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to three per cent of their final-average salary for each year of creditable service. However, for those employees who were members of the supplemental plan only before January 1, 1980, the benefit is equal to one per cent of final average salary plus twenty-four dollars for each year of supplemental-plan-only service earned before January 1, 1980. Final average salary is the employee's average salary over the thirty-six consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above and do not withdraw their employee contributions may retire at the ages specified above and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established by state statute.

Funding Policy - Under Plan A, members are required by state statute to contribute 9.5% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate was 12.75% of annual covered payroll, which decreased to 12.25% of annual covered payroll in January 2009. Contributions to the System also include one-fourth of 1% (except Orleans and East Baton Rouge Parishes) of the taxes shown to be collectible by the tax rolls of each parish. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan. The contribution requirements of plan members and the District are established and may be amended by state statute. As provided by R.S. 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The District's contributions to the System under Plan A for the years ending September 30, 2009, 2008, and 2007, were \$17,402, \$15,688, and \$14,618, respectively, equal to the required contributions for each year.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Parochial Employees' Retirement System, Post Office Box 14619, Baton Rouge, Louisiana, 70898-4619, or by calling (225) 928-1361.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (Continued)

(6) Contingencies

The District operates a sewerage plant, which is regulated by the Department of Environmental Quality and the Environmental Protection Agency. In the opinion of the board members, all applicable regulations have received full compliance, however, due to the complexity of the regulations, differing interpretations of the regulations by DEQ and/or the EPA may result in instances of noncompliance.

(7) Compensation Paid to Board Members

Meeting expense paid to the Board of Supervisors for the year ending September 30, 2009, is as follows:

Board members:

James Vidos	\$ 660
Ken Cooper	660
Ray Rentrop	<u>720</u>
Total	<u>\$ 2,040</u>

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has elected to purchase insurance coverage through the commercial insurance market to cover its exposure to loss. The District is insured up to policy limits for each of the above risks. There were no significant changes in coverage, retentions, or limits during the year ended September 30, 2009. Settled claims have not exceeded the commercial coverage in any of the previous three fiscal years.

(9) New Accounting Pronouncements

In November 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires the accrual of postemployment benefits for retired employees. The District is required to implement this standard for the fiscal year ending September 30, 2010. The District has not yet determined the full impact that adoption of GASB Statement 45 will have on the financial statements.

INTERNAL CONTROL, COMPLIANCE, AND OTHER MATTERS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Supervisors
St. Mary Parish Sewerage District No. 8
Patterson, Louisiana

We have audited the financial statements of the business-type activities of St. Mary Parish Sewerage District No. 8 (hereinafter "the District"), as of and for the year ended September 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies identified in the accompanying schedule of audit results and findings as items 2009-1 and 2009-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2009-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in our audit is described in the accompanying corrective action plan for current year findings. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties. Although the intended use of this report may be limited under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document in accordance with Louisiana Revised Statute 44:6.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Morgan City, Louisiana
January 26, 2010

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Schedule of Audit Results and Findings
Year Ended September 30, 2009

Part I. Summary of Auditor's Results:

An unqualified opinion was issued on the financial statements.

Significant deficiencies in internal control were disclosed by the audit of the financial statements and one of the conditions is considered a material weakness.

The audit did not disclose any instances of noncompliance, which are material to the financial statements.

A management letter was not issued.

Part II. Findings required to be reported in accordance with *Government Auditing Standards*:

2009-1 - Segregation of Duties:

CONDITION: Accounting and financial functions are not adequately segregated.

CRITERIA: SAS109, *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, AU §314.43 defines internal control as follows:

"Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Additionally, Statements on Standards for Attestation Engagements (SSAE) AT §501.03 states:

An entity's internal control over financial reporting includes those policies and procedures that pertain to an entity's ability to record, process, summarize, and report financial data consistent with the assertions embodied in either annual financial statements or interim financial statements, or both."

CAUSE: The cause of the conditions is the result of a failure to design and implement policies and procedures necessary to achieve adequate internal control.

EFFECT: Failure to adequately segregate accounting and financial functions increases the risk that errors and/or irregularities including fraud and/or defalcations may occur and not be prevented and/or detected.

RECOMMENDATION: Due to the size of the operation and the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Schedule of Audit Results and Findings (continued)
Year Ended September 30, 2009

2009-2 Application of GAAP (generally accepted accounting principles)

CONDITION: Management and staff lack the training and expertise in the selection and application of GAAP in the financial statement preparation process.

CRITERIA: SAS112, *Communicating Internal Control Related Matters Identified in an Audit*, AU §325.18, states in pertinent part:

“Deficiencies in the following areas ordinarily are at least significant deficiencies in internal control:

- Controls over the selection and application of accounting principles that are in conformity with generally accepted accounting principles. Having sufficient expertise in selecting and applying accounting principles is an aspect of such controls.”

Furthermore, AU §325.32 identifies the following as a deficiency in the design of (internal) controls:

“Employees or management who lack the qualifications and training to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with generally accepted accounting principles, the person responsible for the accounting and reporting function lacks the skills and knowledge to apply generally accepted accounting principles in recording the entity’s financial transactions or preparing its financial statements.”

CAUSE: The cause of the conditions is the result of a failure to design and implement policies and procedures necessary to achieve adequate internal control.

EFFECT: Financial statements and related supporting transactions may reflect a material departure from generally accepted accounting principles.

RECOMMENDATION: The additional costs required to achieve the desired benefit may not be economically feasible.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Schedule of Audit Results and Findings (continued)
Year Ended September 30, 2009

Part III. Findings and questioned costs for federal awards required to be reported in accordance with Office of Management and Budget Circular A-133

The requirements of OMB Circular A-133 do not apply to the District.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2009

A. Internal Control –

2008-1 - Segregation of Duties:

CONDITION: Accounting and financial functions are not adequately segregated.

RECOMMENDATION: Due to the size of the operation and the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

CURRENT STATUS: See schedule of audit results and findings item 2009-1.

2008-2 - Application of GAAP

CONDITION: Management and staff lack the training and expertise in the selection and application of GAAP in the financial statement preparation process.

RECOMMENDATION: The additional costs required to achieve the desired benefit may not be economically feasible.

CURRENT STATUS: See schedule of audit results and findings item 2009-2.

B Compliance –

There were no findings previously reported under this section.

C. OMB A-133 –

This section was not applicable.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Corrective Action Plan for Current Year Findings
Year Ended September 30, 2009

2009-1 - Segregation of Duties:

CONDITION: Accounting and financial functions are not adequately segregated.

MANAGEMENT'S RESPONSE: Not considered necessary

2009-2 - Application of GAAP (generally accepted accounting principles)

CONDITION: Management and staff lack the training and expertise in the selection and application of GAAP in the financial statement preparation process.

MANAGEMENT'S RESPONSE: The District has evaluated the cost/benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to outsource this task to its independent auditors, and will review, approve, and accept responsibility for the content and presentation of the statements and related notes prior to issuance.